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30 April 1979

MEMORANDUM FOR THE RECORD

FROM: John H. Holdridge
National Intelligence Officer for China

SUBJECT: PRC Meeting on Economic Relations with China,
30 April 1979 at 0930 hours

1. The meeting took place at 0930 A.M. in Room 305, Old EOB, chaired by Secretary Blumenthal. Other principals present were Dr. Brzezinski and Secretaries Kreps, Bergland and Adams; also present were Under Secretary (Monetary Affairs) Anthony M. Solomon (Treasury), Assistant Secretary Katz (State) and representatives from Defense, Labor, Maritime Administration (MARAD), EXIM Bank, Justice and CIA.

2. As indicated in the 27 April Treasury memorandum, Secretary Bergland focused on the desirability of concluding a maritime agreement with China. The main issue in this regard was whether or not to include a cargo-sharing arrangement in the agreement. The MARAD representative, backed by Labor, Defense and Transportation was in strong support, and Agriculture, in the person of Secretary Bergland, argued against, backed by State and Treasury. The crux was whether cargo-sharing with China, on about the same basis as with the USSR, might deter the Chinese from purchasing US agricultural products and thus significantly reduce US exports to China.

3. The MARAD representative maintained that problems with US labor and public opinion could be expected in the absence of a cargo-sharing arrangement, that the Chinese would expect us to ask for one, and that we should not allow Chinese shipping to dominate our two-way trade. Secretary Bergland pointed out that with cargo-sharing, costs to the Chinese would be considerably higher. Also, under present circumstances large-scale bulk shipments of US grain to China in US ships would need to go in tankers, since few US bulk

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liners are still in service; however, the Chinese have few facilities to unload grain from tankers and also object to possible contamination of grain from oil residues. The MARAD representative argued that as a practical matter language could be devised which would in most cases rule out or greatly reduce the use of tankers while providing trade opportunities for US bulk liners, and that in any event the Chinese may be thinking of buying vacuum-type unloaders. Secretary Adams supported this position.

4. At this point Dr. Brzezinski interjected to note that the President had become concerned over what appeared to be a cooling-off in US-China relations, and accordingly wanted Secretary Kreps' mission to reintroduce some sense of momentum to this relationship. Dr. Brzezinski referred to Deng Xiaoping's conversation with CODEL Church as indication of Chinese coolness, evidently based on a Chinese belief that the omnibus legislation on Taiwan is incompatible with our normalization agreement with them. He stated that we would very shortly convey to the Chinese a broad assessment of the US-China relationship as we see it, but the Kreps visit was also intended to convey a sense of forward motion.

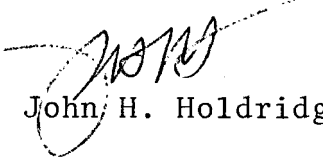
5. The discussion then centered on the main issues in US economic relations with China; namely the claims and assets agreement, MFN, a trade agreement, and the textile agreement, and how these matters should be handled in the light of what Dr. Brzezinski had just said. It was agreed that we would inform the Chinese that we would hold them to what they had already accepted regarding claims and assets (and would not provide them with a list of claimants in the US as they are now asking), but would also tell them we would send the trade agreement (which would be initialed by Secretary Kreps in China) and MFN legislation to the Hill as soon as we and the Chinese reached agreement on textiles. This matter of timing was considered sufficient to meet Dr. Brzezinski's point of imparting a sense of momentum. Dr. Brzezinski then left the meeting.

6. Discussion subsequently resumed on the cargo-sharing question. Secretary Blumenthal observed that agreement clearly was not going to be reached at this particular meeting, and the issue would therefore have to be presented to the President for decision. The deadline would be Friday, 4 May, so as to accord with Secretary Kreps' date of departure for China. The options were whether or not to include cargo-sharing in the maritime agreement, and if so, whether language should be included which would exclude tankers or minimize their use.

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Secretary Blumenthal also commented that talking points had been completed on a civil aviation agreement and textiles, and Secretary Kreps added that in addition talking points had been prepared on a US-China meteorological agreement and cooperation between the US Census Bureau and Chinese demographers. All these matters would be discussed with the Chinese during her visit.

7. After the meeting I noted to Oksenbergh of the NSC and the MARAD representative that Chinese foreign exchange reserve had fallen from three billion to 1.5 billion dollars since last August, and that they had also cancelled contracts to purchase four hundred thousand tons of US grain. This indicated that they were feeling economically pressed and would be careful to spend their money in ways which would reduce foreign exchange outlays, which might include shipping costs. The MARAD representative mentioned that the Chinese have concluded cargo-sharing arrangements with a number of countries (he did not recall which), and Oksenbergh asked that he be furnished with the details.


John H. Holdridge

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